

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Nakano Analyst: LuAnna Hass Bill Number: AB 660

Related Bills: See Prior Analysis Telephone: 845-7478 Amended Date: 05/01/01

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Research Expenses Credit/Conform to Federal Alternative Incremental Credit

- ☒ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced February 22, 2001.
- ☐ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.
- ☐ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.
- ☐ FURTHER AMENDMENTS NECESSARY.
- ☐ DEPARTMENT POSITION CHANGED TO _____.
- ☒ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 22, 2001, STILL APPLIES.
- ☐ OTHER - See comments below.

SUMMARY

This bill would increase the alternative incremental research expense credit to be in conformity with the federal credit percentages.

SUMMARY OF AMENDMENT

The May 1, 2001, amendments resolved the department's implementation and technical concerns by accepting the amendments suggested in the department's analysis of the bill as introduced February 22, 2001.

Except for the concerns resolved by these amendments, the remainder of the department's analysis of the bill as introduced still applies. The revenue estimate still applies as it was originally estimated based on the author's intent of conforming to the federal percentages. The revenue estimate is included below for reference.

POSITION

Pending.

Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input type="checkbox"/> N	<input type="checkbox"/> OUA	<input checked="" type="checkbox"/> PENDING

Legislative Director

Date

Brian Putler

05/30/01

ECONOMIC IMPACT

Tax Revenue Estimate

This bill would result in revenue losses as follows:

Estimated Revenue Impact of AB 660 As Amended May 1, 2001 \$ Millions			
2001-02	2002-03	2003-04	2004-05
-\$30	-\$49	-\$63	-\$69

The California credit rates would be raised from the current level of 1.49%, 1.98%, and 2.48% to 2.65%, 3.20%, and 3.75%, respectively.

This estimate does not account for changes in employment, personal income, or gross state product that could result from this measure.

Revenue Estimate Discussion

The above revenue impact was estimated as follows. First, the revenue loss due to the alternative incremental research credit under existing Bank and Corporation Tax Law (B&CTL) was estimated for 1994 using the department's corporate samples as well as other corporate financial data. Next, the revenue loss due to the alternative incremental research credit under the proposed higher credit rates was estimated using the same data. The difference between these two amounts was the bill's B&CTL revenue impact.

The estimated 1994 revenue losses were extrapolated to future years using reported aggregate research credit claimed by California corporations from 1994 to 1998, and Department of Finance projected annual growth rates of corporate profits. Finally, the revenue impact under the Personal Income Tax Law was assumed to be equal to 4.8% of the B&CTL impact and was added to the corporate impact.

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